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Ask an Advisor: What client story still haunts you?
By Rob Burgess
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Triskaidekaphobia — the fear of the number 13 — has endured for centuries. Though the origins of this popular belief are uncertain, the effects can be seen to this day. Ever notice how some hotels label the 13th floor as the 14th?

Financial advisors know that real-world money misfortune has little to do with superstition. The cases that tend to haunt them tend to start the same way: A client makes a consequential decision without picking up the phone.

In honor of Friday the 13th — there are three of them this year — we asked advisors around the country to share the professional horror stories they've witnessed.

Among the responses we received, a clear pattern emerged: missteps driven not by bad luck but by unchecked assumptions and losses that might have been avoided with a call to an advisor.

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The tax-free 401(k) tip clients ‘heard’ about
Tatiana Tsoir, president of Linza Advisors in New York City:

"A married client couple provided us with two 1099-Rs for $10,000 each distribution from their 401(k) accounts. They bought a house and each took out $10,000, thinking that it was tax free. They didn't ask us anything; they just did it.

"It turns out they 'heard' that there was no penalty for first-time homebuyers' distribution of up to $10,000 from their retirement account, penalty- and tax-free. Well, they didn't ask. The law was that one could only do that from an IRA, not a 401(k) account. The penalty exception for early withdrawal was only for individual retirement accounts and not a 401(k) plan through work. And there is always income tax, unless it's a Roth account. So, a double whammy. They didn't have to take the funds out. They did, thinking it was tax- and penalty-free."

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Everyone assumed someone else checked
Nev Kraguljevic, principal and financial planner at Elephant Corner Financial in Shelburne, Vermont:

"A new client started working with me. They were in their first job and wanted to

gain a better understanding of their finances. In reviewing their pay stub … I didn't understand what the arrangement was. They were employed by a small business and I saw a contribution to retirement. As we started digging in deeper, it turned out the employer was contributing directly to their IRA. The employee didn't know that this was not allowed, nor did the employer.

"Apparently, the employer used AI to see what they could do, and AI recommended this setup. Assuming it was correct, the employer went to their payroll vendor and directed them to contribute directly into the IRA, not a savings incentive match plan for employees (SIMPLE) or simplified employee pension (SEP). Payroll didn't ask questions and just sent the funds. The employer assumed it was permitted, since no questions were asked. Payroll assumed it was an allowable contribution. The accountant just kept the books. No one verified, and everyone thought that someone else checked it. Thankfully, the employee started working with me shortly after all this was rolled out. We rectified it quickly, with an allowable plan being rolled out.

"The most challenging part was trying to keep all parties calm and ensure no relationships ruptured. The end goal was to get it resolved without taking sides and leading with understanding, compassion and education. I did not expect that a 'simple' pay stub review would uncover something like this and it has taught me to lead with questions and curiosity and look at every document closely, rather than just assume all is in good order."

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In search of a nonexistent 'early retirement' department
William A. Stack, a financial advisor at Stack Financial Services in Salem, Missouri:

"The scariest financial situation I encountered was when a 58-year-old man walked into the office and asked to speak with someone about his retirement plans. I had a few minutes between appointments, so I invited him in for a brief chat. He said he wanted to sign up for early retirement. I had to explain to him that there was no 'early retirement' department to sign up with. I asked if he had retirement assets we could look at or discuss. I thought perhaps he was asking about setting up penalty-free 72(t) withdrawals from his retirement accounts before reaching age 59 1/2. He thought about it for a while and mentioned he thought he had a few hundred dollars in a 401(k) at one of his previous jobs, but hadn't seen a statement for a while. He was sincerely tired of working and knew of others who had 'retired early.' He thought it was a good idea for him as well.

"I had to explain that unless he had been setting aside or inherited some funds, there could be no income for his 'early retirement' unless he qualified for Social Security disability. I offered to look over any 401(k) statements he came across when he found them, but he never did. I shuddered at the thought of facing that much uncertainty, so close to retirement. This encounter let me know there is work yet to do in terms of educating the general population about planning for

retirement."

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The client who couldn’t be saved
David W. Demming, founder and president of Demming Financial Services in Aurora, Ohio:

"A long-time client fell for an online romance scam. We tried to intervene with the family and Schwab, all to no avail, with a loss of $1.2 million we had built up for her over 35 years. She was a single woman who was accustomed to having male boyfriends, who somewhat subsidized her living. She was a 62-year-old IT person, never making more than $80,000 to $90,000. We knew her for 40 years as the sister of family friends. … She requested large sums several times and avoided our direct questions. We involved her sister, whom we had known for some time, when we became concerned. [The client] refused to give reasons. We involved Schwab's fraud department. The sums got larger and larger. Ultimately, she stonewalled everyone. We knew we were stuck. Schwab fired her.

"The case still bothers me years later and somewhat poisoned our relationship with the sister. The scammer passed money through an Amazon affiliate. Federal legal people were notified, with no feedback."

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Correction
A previous version of this story had an in correct location for Stack Financial Services. The correct location is Salem, Missouri.

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